No. 93-2035

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Supreme Court, U.S.
FILED
AUG 29 1994
OFFICE OF THE CLERK

In The

Supreme Court of the United States

October Term, 1993

NINTENDO OF AMERICA INC.,

Petitioner,

v.

LEWIS GALOOB TOYS, INC.

Respondent.

Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

ROBERT H. BORK
1150 Seventeenth Street, N.W.
Washington, D.C. 20036
(202) 862-5851

JOHN J. KIRBY, JR.*
MUDGE ROSE GUTHRIE
ALEXANDER & FERDON
180 Maiden Lane
New York, New York 10038
(212) 510-7000

Attorneys for Petitioner
Nintendo of America, Inc.

* Counsel of Record

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I. THE NINTH CIRCUIT DECISION ACKNOWLEDGED A CONFLICT IN THE CIRCUITS -- AND COMPOUNDED IT

Nintendo's Petition showed that the decision of the Ninth Circuit in the present case further confused a long-standing conflict among the circuits in the application of Federal Rule of Civil Procedure 65(c). Specifically, the Petition pointed out that the Ninth Circuit added a fourth view to what had previously been a three-way split among the circuits. Thus, two circuits had previously held that Rule 65(c) did not limit the broad discretion of the trial court

to deny damage awards to avoid injustice.[1] One, and perhaps a second circuit, had taken a position that would leave no discretion to the trial court, *i.e.*, to make execution on the bond in favor of a successful defendant virtually automatic.[2] A third group, consisting of four circuits, had adopted a position in the middle ground. Those courts held that a range of equitable factors should be considered, but that a bond should be exonerated only when the unsuccessful plaintiff had shown a "good reason" for doing so or had overcome a "rebuttable presumption" in favor of execution.[3]

The Ninth Circuit acknowledged the existence of conflict among the circuits and seemingly endorsed the third view:

> "[W]e join what appears to be the majority and hold there is a rebuttable presumption that a wrongfully enjoined party is entitled to have the bond executed ...." (A-12)

At the same time, however, the Ninth Circuit departed from the majority view by drastically narrowing the factors to be considered in determining whether the presumption in favor of execution had been rebutted. At the hands of the Ninth Circuit, a court's review of equitable factors was essentially limited to consideration of whether a defendant had acted in bad faith, *e.g.*, by deliberately misleading the court or the

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[1] *H&R Block, Inc. v. McCaslin*, 541 F.2d 1098 (5th Cir. 1976), *cert. denied*, 430 U.S. 946 (1977); *State of Kan. ex rel. Stephan v. Adams*, 705 F.2d 1267 (10th Cir. 1983).

[2] *Blumenthal v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 910 F.2d 1049, 1054 (2d Cir. 1990); *American Bible Society v. Blount*, 446 F.2d 588, 595 n.12 (3d Cir. 1971).

[3] *Coyne-Delaney v. Capital Devel. Bd.*, 717 F.2d 385 (7th Cir. 1983); *State of Ala. ex rel. Siegelman v. U.S. E.P.A.*, 925 F.2d 385 (11th Cir. 1991); *Zenith Radio Corp. v. U.S.*, 823 F.2d 518 (Fed. Cir. 1987); *National Kidney Patients Ass'n v. Sullivan*, 958 F.2d 1127 (D.C. Cir. 1992), *cert. denied*, 113 S. Ct. 966 (1993).

plaintiff as to its position. That approach, the Petition pointed out, was so different from the majority view as to constitute a fourth position that, in practical terms, more nearly resembled the minority position favoring automatic execution.[4]

Respondent, for its part, has not denied the existence of a conflict among the circuits that only this Court is in a position to resolve. Rather, Respondent has sought only to lessen the conflict by attempting to portray the decision of the Ninth Circuit as following the majority view. In aid of that approach, Respondent asks this Court to consider only what the Ninth Circuit announced that it was doing and to ignore what in fact the Ninth Circuit did. Only in that way could this Court accept Respondent's claim that: "At bottom, Nintendo seeks review of the Ninth Circuit *application* of the [majority rule] to the particular facts of this case." (emphasis added) Resp. Br. p. 3. That is, of course, not at all what Nintendo seeks. What Nintendo does seek is a resolution of the acknowledged conflict among the circuits. Such a resolution will necessarily entail a review of the novel standard fashioned by the Ninth Circuit and consideration of the unfortunate consequences inherent in that standard. The "particular facts" of this case are most important for the illumination that they provide those issues.

II. CERTIORARI SHOULD BE GRANTED BECAUSE THE CONSTRUCTION OF RULE 65(C) IS OF GREAT IMPORTANCE IN FEDERAL LITIGATION

In the Petition, we pointed out that the grant of a writ of certiorari was supported by the importance of Rule 65(c)

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[4] Significantly the first section of the Respondent's brief in response to the Petition, arguing for "limited discretion" on the part of the trial court, has been recast only slightly from the argument that it presented to the Ninth Circuit in urging adoption of the minority position which permits no exercise of discretion by the trial court. Resp. Br. pp. 12-16.

to federal litigation generally and to copyright litigation in particular. Pet. pp. 23-27. Respondent does not attempt to contravene that proposition.

Rather, Respondent is content to make several collateral observations that are, in the main, correct but in no way diminish the compelling grounds for granting certiorari. Thus, Respondent is correct in noting that a preliminary injunction is, in general, a "drastic measure." To claim further, however, as Respondent does, that some "particular injury" was caused by the injunction here, simply begs the question. *See* Resp. Br. 24. n.15.

Respondent is also correct in asserting that "there is no recognizable general public interest against enforcement of preliminary injunction security." We did not claim the existence of such a general interest in the courts below or in our Petition. We do assert, however, a strong public interest against such enforcement under particular circumstances which make it clear that the defendant's injury resulted in whole, or in principal part, from its own actions or inactions. To permit enforcement under such circumstances is surely to create a chilling effect on plaintiffs -- in copyright cases and elsewhere -- who have meritorious grounds for seeking a preliminary injunction.

Respondent perpetuates the error of the Ninth Circuit, pointed out in the Petition, by asserting that there are no public policy concerns favoring the issuance of a preliminary injunction in copyright cases. *Id.* The existence of such concerns, however, is clearly evidenced by the rule (ignored by the Ninth Circuit but acknowledged by Petitioner) that where a preliminary injunction is sought, the existence of irreparable injury will be assumed upon a showing of infringement. It should be further noted that the availability, noted by Respondent, of a "full panoply of remedies other than injunctive relief" *Id.*, provides little comfort where the infringer is an individual or entity whose financial condition

is questionable.

There is undoubtedly an interest, as Respondent suggests, "in not having the copyright law misused to cause the suppression of new products or ideas." *Id.* That interest, however, can be fully vindicated by the approach to Rule 65(c) followed in the Seventh, Eleventh, Federal and District of Columbia Circuits.[5] It surely does not need the "protection" provided by the Ninth Circuit's distorted version of that approach.

Finally, there is an undisputed element of public interest that requires brief emphasis: an interest in clarity and predictability of legal processes. To serve that interest, we urge this Court to resolve the acknowledged confusion and conflict among the circuits in applying of Rule 65(c). This case, we submit, presents a highly appropriate occasion to do so.

III. THE NINTH CIRCUIT DID NOT CONSIDER A FULL RANGE OF EQUITABLE FACTORS AS MANDATED BY THE MAJORITY RULE

A. The Ninth Circuit Misinterpreted The Principal Authority On Which It Relied And Considered Only The Issue of Respondent's Good Faith

Respondent's attempt to defend the decision of the Ninth Circuit rests upon two basic underpinnings: (1) a view of *Page Communications Engineers, Inc. v. Froehlke*, 475 F.2d 994 (D.C. Cir. 1973), which simply echoes the misunderstanding of that case by the Ninth Circuit; and (2) a misinterpretation of the Ninth Circuit's decision.

With respect to *Page Communications*, Respondent

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[5] *See* cases cited *supra* note 3.

joins the Ninth Circuit in claiming that the decision turned on a finding of "intentional misconduct" on the part of the defendant. In fact, however, as our Petition pointed out, the court in *Page Communications* made no such finding. On the contrary, what was crucial was the fact that, in granting an injunction, the court did not have the benefit of a material document in the possession of the defendant. So here, the District Court did not have the benefit of the legal defenses which Respondent declined to present to it for 10 months. Bad faith or not, that was a clear failure by Respondent to mitigate its damages. If the court had concluded - in *Page Communications* or in the present case -that the defendant had acted in bad faith, such a finding would have been dispositive in requiring an exoneration of the bond. On the other hand, as pointed out in our Petition, a finding of good faith should mark the beginning of the court's inquiry and not the end.

Having vigorously endorsed the Ninth Circuit's view of *Page Communications* as a case of "intentional misconduct," Respondent pivots neatly and heads in the opposite direction. Thus, despite the preoccupation of the Ninth Circuit with intentional misconduct -- or the lack thereof -- Respondent argues that the Ninth Circuit did not limit itself to that issue but also considered the other factors raised by Nintendo below and before this Court. Suffice it to say, however, there is not a wisp of evidence in the decision of the Ninth Circuit reflecting, let alone establishing, such consideration.[6]

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[6] Respondent also presents by way of footnote, still another alternative argument, *i.e.*, that failure to mitigate "has absolutely no application to the facts of this case." Resp. Br. 16, n.9. In this connection, Respondent notes that a failure to mitigate is not relevant to liability but only to the amount of damages and then makes the extraordinary assertion "[n]o question relating to the amount of damages has been raised in the Petition" *Id.* In fact, the entire Petition is addressed to the amount of damages – which may be as high as $15 million or as low as zero. Thus, Respondent has acknowledged that its new defenses were disclosed only six weeks after the preliminary injunction was issued. The record

What Respondent really claims, it turns out, is that the Ninth Circuit considered the "facts" relied upon by Nintendo and disregarded only what Respondent describes as the "labels" applied to those facts by Nintendo. Resp. Br. p. 18. Respondent, however, cannot succeed in denigrating, as mere labels, its failure to mitigate its damage and the metamorphosis of its legal position after a preliminary injunction had been granted. Under a proper analysis, such conduct requires close scrutiny -- not merely to determine whether the defendant had acted in bad faith but to determine whether, in light of such conduct, justice requires that the damages imposed upon the plaintiff be reduced or eliminated altogether. As the court held in *Page Communications*:

> Although Rule 65(c) required a bond here, it does not follow that the District Court was bound to award damages on the bond, without considering the equities of the case. The Rule did not make judgment on the bond automatic, upon a showing of damage. On the contrary, the court in considering the matter of damages was exercising its equity powers, and was bound to effect justice between the parties, avoiding any result that would be inequitable or oppressive for either party. The Rule was not intended to negate the court's duty in this regard. 475 F.2d at 997.

The failure of the Ninth Circuit to apply that standard, cannot be disguised, sanctioned or ignored. Consideration of the "facts" is hardly sufficient, or even meaningful, when the analytical framework of the court is grossly distorted.

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does not establish, and Respondent makes no claim, that Respondent would have sustained any damages as a result of an injunction in effect during only that brief period. The Petition, however, recognized that the failure to mitigate could possibly be found to have occurred at a later date. Pet. p. 21, 22. In that event, the amount of damages would be reduced, but not to zero.

B. The Facts Of This Case Support An Exoneration Of The Bond.

This Court may rule that, as a matter of law, the bond in this case should be exonerated as a matter of law. Alternatively, the case may be remanded to the lower courts for consideration of the facts under a proper standard. The latter course would avoid any involvement by this Court in what Respondent has characterized as a "highly fact-specific question of equitable balancing." Resp. Br. p. 19.

It should be emphasized, however, that the undisputed facts of record clearly support an exoneration. Respondent's failure to mitigate its damage stands undenied and unjustified. Respondent's attempts to explain away its conduct are without merit.

Respondent's principal argument is that its new defenses, on which it ultimately prevailed, were disclosed to Petitioner by Respondent's brief to the Ninth Circuit filed on August 10, 1990. Thus, in Respondent's view, Petitioner could have evaluated the defenses and made its own motion to dissolve the preliminary injunction. That argument stands the concept of mitigation on its head. It suggests that a party may escape its duty to mitigate merely by arguing that the other party should have anticipated the ultimate outcome and ceased its damage-causing conduct. Such an exception, of course would virtually swallow whole any duty to mitigate. Respondent has cited no authority to support such an exception and we are aware of none. Clearly, the responsibility to seek a modification or dissolution of the injunction lay with Respondent.[7]

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[7] In the Petition, we pointed out that, during the period from the granting of the injunction to trial, Respondent did not seek to modify or dissolve the injunction but, rather, made a series of motions to increase the amount of the bond. Respondent does not and cannot deny that fact. Rather, Respondent purports to find some significance in the fact that its motions to increase the bond

Alternatively, Respondent argues that petitioner could have joined with it in urging the Ninth Circuit to consider its new defenses. That argument, however, ignores the fact, emphasized by the Ninth Circuit, that such a course would have deprived Petitioner of the opportunity to develop a factual record in response to those defenses in the District Court. (A-72) Again, the responsibility for having proceeded with a premature appeal lay with Respondent and cannot now be shifted to Petitioner.

Finally, Respondent argues that the Petitioner's position, if applied in this case, would have had the following consequence:

> In order to enforce the preliminary injunction security here, Nintendo could have had Galoob forego [sic] its right to appeal so that the District Court could retain jurisdiction over the preliminary injunction in case Galoob discovered different factual and legal theories which might provide a basis for vacating of the preliminary injunction. Resp. Br. p. 22.

That dire scenario simply bears no relation to reality. Respondent need not have forgone its appeal but merely deferred it long enough for Respondent to have presented to the District Court (giving Petitioner an opportunity to respond) the very defenses that Respondent had already identified, that it urged upon the Ninth Circuit, and that were

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were made prior to the decision by the Ninth Circuit. Resp. Br. p 7, n.3. While that is correct, the salient point is that Respondent made no attempt in the District Court - either before or after the Ninth Circuit decision - to seek relief on the basis of its new defenses. Moreover, we note, the final increase in the bond was not approved by the District Court until March 27, 1994, more than two months after the Ninth Circuit decision.

the basis of its ultimate success.[8]

In short, Respondent has offered no credible explanation for its failure to mitigate its damages by promptly seeking a dissolution of the preliminary injunction on the basis of its new defenses. That failure requires an exoneration of the bond or, at a minimum, a remand to the lower courts.

CONCLUSION

For the foregoing reasons, and the reasons set forth in the Petition, the petition for a writ of certiorari should be granted.

Dated: August 26, 1994

Respectfully submitted,

Robert H. Bork
1150 Seventeenth St., N.W.
Washington, D.C. 20036
(202) 862-5851

John J. Kirby, Jr.
Counsel of Record
Mudge Rose Guthrie
180 Maiden Lane
New York, NY 10038
(212) 510-7000

Attorneys for Petitioner
Nintendo of America, Inc.

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[8] Respondent has noted statements in the decision of the District Court that "Assuming infringement, adequate remedies exist at law;" and "a permanent injunction in favor of Nintendo would not be an appropriate remedy." Resp. Br. 23 n. 13. However, these conclusory dicta by the District Court were not adopted by the Ninth Circuit and were wrong as a matter of law. See, *e.g.*, *Universal City Studios Inc. v. Sony Corp. of America*, 659 F.2d 963, 976 (other Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984). Further, Respondent has acknowledged that the legal arguments that it presented at the preliminary injunction hearing were not reached or decided at the trial on the merits. *Id.* Accordingly, the judgment against Petitioner rests solely upon arguments not presented at the preliminary injunction hearing – or on any subsequent motion to dissolve the injunction.